IDAHO POWER®
An IDACORP Company

DONOVAN E. WALKER
Lead Counsel
dwalker@idahopower.com

September 17, 2014

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-13-22
Update to Wind Integration Rates and Charges – Supplementary Reply Comments of Idaho Power Company

Dear Ms. Jewell:

Enclosed for filing in the above matter are an original and seven (7) copies of the Supplementary Reply Comments of Idaho Power Company.

Very truly yours,

Donovan E. Walker

DEW:csb
Enclosures

1221 W. Idaho St. (83702)
P.O. Box 70
Boise, ID 83707

DONOVAN E. WALKER (ISB No. 5921)
JULIA A. HILTON (ISB No. 7740)
Idaho Power Company
1221 West Idaho Street (83702)
P.O. Box 70
Boise, Idaho 83707
Telephone: (208) 388-5317
Facsimile: (208) 388-6936
dwalker@idahopower.com
jhilton@idahopower.com

Attorneys for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION TO UPDATE ITS WIND INTEGRATION RATES AND CHARGES.	CASE NO. IPC-E-13-22 SUPPLEMENTARY REPLY COMMENTS OF IDAHO POWER COMPANY

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Supplementary Reply Comments in response to the Supplementary Comments filed by the Idaho Public Utilities Commission ("Commission") Staff ("Staff"), the American Wind Energy Association ("AWEA"), and Renewable Northwest ("RNW") on September 4, 2014.

I. INTRODUCTION

On November 29, 2013, Idaho Power filed its Application with the Commission requesting authorization for Idaho Power to update its wind integration rates and charges consistent with its 2013 Wind Integration Study Report ("2013 Study"). The

following parties intervened in the case: Idaho Winds LLC ("Idaho Winds"); Snake River Alliance ("SRA"); Cold Springs Windfarm, LLC ("Cold Springs"); Desert Meadow Windfarm, LLC ("Desert Meadow"); Hammett Hill Windfarm, LLC ("Hammett Hill"); Mainline Windfarm, LLC ("Mainline"); Ryegrass Windfarm, LLC ("Ryegrass"); Two Ponds Windfarm, LLC ("Two Ponds"); Cassia Wind Farm LLC ("Cassia"); Hot Springs Windfarm, LLC ("Hot Springs"); Bennett Creek Windfarm, LLC ("Bennett Creek"); Cassia Gulch Wind Park LLC ("Cassia Gulch"); Tuana Springs Energy, LLC ("Tuana"); High Mesa Energy, LLC ("High Mesa"); Renewable Northwest Project, which has since changed its name to Renewable Northwest; AWEA; Idaho Wind Partners I, LLC ("Idaho Wind Partners"); Meadow Creek Project Company LLC ("Meadow Creek"); and Rockland Wind Farm, LLC ("Rockland"). The Commission granted intervention to each of the above parties.

On January 31, 2014, Cold Springs, Desert Meadow, Hammett Hill, Mainline, Ryegrass, Two Ponds, Cassia, Hot Springs, Bennett Creek, Cassia Gulch, Tuana, and High Mesa collectively filed a Motion to Dismiss ("Cold Springs Motion to Dismiss"). On February 7, 2014, AWEA and RNW filed comments in support of the Cold Springs Motion to Dismiss; Meadow Creek, Rockland, and Idaho Wind Partners filed to join in the Cold Springs Motion to Dismiss with additional comments; and Idaho Winds filed a separate Motion to Dismiss. On February 21, 2014, Idaho Power filed an Answer to the various motions to dismiss, joinders, and comments.

On April 30, 2014, in Order No. 33030, the Commission denied the Cold Springs Motion to Dismiss and all motions to partially and/or fully dismiss the matter. In Order No. 33030, the Commission clarified that any "Commission approved modifications to

Idaho Power's wind integration rate and charges will only apply prospectively – to new contracts as they are entered into by the parties and submitted to the Commission for approval." Order No. 33030, p. 8. The Commission stated that parties had 14 days to withdraw as intervenors if any party believed it no longer had a direct and substantial interest in the proceeding. Rockland, Meadow Creek, Idaho Wind Partners, and SRA withdrew from the case; an Amended Notice of Parties was issued on May 20, 2014.

The remaining parties agreed that modified procedure could effectively process the remainder of the case and set a procedural schedule that included a comment deadline, settlement conference, and reply comment deadline. On July 2, 2014, Staff filed Comments and AWEA and RNW jointly filed Comments on the Company's Application.

On July 9, 2014, the parties met to discuss settlement of the case. The parties were unable to settle the case and desired additional time for discovery and comment due to those discussions. On July 15, 2014, in Order No. 33075, the Commission granted the parties' request for an additional procedural schedule, including deadlines for additional discovery, supplementary comments, and supplementary reply comments. On July 22, 2014, Idaho Power filed its Reply Comments in which it addressed objections raised by AWEA and RNW, corrected statements from Idaho Power's initial Application relevant to Staff's recommendation, and presented Idaho Power's recommendation to implement wind integration charges on an hourly incremental cost basis for every 100 megawatts ("MW") of penetration through an intermittent generation integration charge tariff. Staff and AWEA/RNW filed Supplementary Comments on September 4, 2014.

II. SUPPLEMENTARY REPLY COMMENTS

A. Staff Comments and Recommendations.

Idaho Power commends Staff for its investigation, analysis, and recommendations. Idaho Power agrees and accepts Staff's recommendations, in particular, Staff's recommendations: (1) to accept the results of the Company's 2013 Wind Integration Study ("2013 Study"); (2) to recover the full incremental cost of integration from new wind projects; and (3) to implement integration charges as a dollar per megawatt-hour ("MWh") charge rather than as a percentage of avoided cost rates. Additionally, the Company agrees with and accepts Staff's further recommendations to apply wind integration costs from the 2013 Study using the Company's proposed tariff, Schedule 87. Idaho Power accepts Staff's revision of the discount rate used in the levelization of the integration charges from 6.7 percent to 8.8 percent, which is consistent with the levelization of published avoided cost rates.

B. AWEA and RNW Objections.

AWEA and RNW (hereafter, "AWEA") initially objected to the validity of the costs identified by the 2013 Study, and cited two primary objections to the 2013 Study methodology: (1) hour-ahead versus day-ahead wind forecast data and (2) netting the reserve requirements for load and wind. AWEA characterizes the treatment of these issues as Idaho Power taking a step backwards and abandoning utility "best practices" by erroneously using day-ahead forecast data and not netting load and wind reserves because these two items were addressed by using hour-ahead data and netting of reserves in the 2007 Wind Integration Study.

> Alarmingly, it appears that the Company's use of best practices in its wind integration methodology has actually diminished over the past seven years, as many of the errors in the 2013 Study were not made in Idaho Power's 2007 Wind Integration Study. . . . Most importantly, Idaho Power's 2013 Study does not incorporate the use of hour-ahead wind forecasts and fails to net the reserve requirements of wind and load; these methodological flaws are described in detail in the following two sections.

AWEA Comments, p. 4.

In its Supplementary Comments, AWEA continues to raise the same two issues that it identified in its initial Comments (and which Idaho Power responded to in its Reply Comments) and laboriously, and unsuccessfully, tries to tie the same issues into an argument that the costs identified by the 2013 Study are "not wind integration costs." AWEA attempts to bolster is strained arguments by characterizing the 2013 Study as "abandonment of standard statistical analysis and industry standards on wind integration analysis." AWEA Supp. Comments, p. 3. Despite such bold claims, the dispute is not about "standard statistical analysis and industry standards." Nowhere has AWEA demonstrated that any statistical analysis is incorrect, or that the methodology is an inappropriate methodology. AWEA's real argument is with the difference in choosing to base integration costs upon the day-ahead, as opposed to the hour-ahead, forecast—and the difference that would occur with netting the reserve requirements for load and wind.

AWEA once again raises the same objections that are admittedly based upon its advocacy for general policy considerations for integration studies on the whole, and from a national perspective. Idaho Power reiterates its response from its Reply Comments:

> Idaho Power did not abandon the use of "best practices" and its understanding of wind integration and its associated costs has not "diminished" over the years since the initial 2007 Study was conducted. In fact, at the time of the 2007 Study, Idaho Power had very little wind generation actually operating on its system (just under 20 MW with only the Fossil Gulch and Horseshoe Bend Wind projects on-line), compared to the 678 MW of wind generation that it successfully integrates onto its system today. It is exactly the experience that Idaho Power has gained over the past seven plus years of actual operations of its system, reliably serving its customers in a least-cost manner as required by its regulatory compact, that specifically informed the Company's conscious decisions to change to the day-ahead wind forecast and to not net the reserve requirements of load and wind in its 2013 Study. AWEA admittedly advocated for general policy considerations for integration studies on the whole, and from a national perspective. However, it fails to take into account Idaho Power's own specific and real-world operation of its system, the way that costs are incurred and recovered (or not), and the way that the markets function that Idaho Power has access to and participates in. The decisions about how to conduct a proper wind integration study is not a one-size-fits-all, plug-and-play endeavor that is the same for Idaho Power as it is for another utility that may reside inside of an RTO/ISO such as exists in other parts of the country. In addition, the fact that all but 101 MW of the 678 MW of wind on Idaho Power's system is PURPA generation makes a significant difference because the Company does not have the operational flexibility with PURPA generation that it may have (or another utility may have) if its wind generation is non-PURPA. Because the PURPA generation is a designated network resource to serve load on the Company's system, and the Company must accept delivery whenever it is delivered by QF projects, the decisions must be made about the designation/undesignation of Idaho Power's other resources in order to keep the system balanced and reliably serving load. These decisions incur costs. The integration studies attempt to quantify some of these costs.

Idaho Power Reply Comments, pp. 10-11.

Idaho Power also addressed AWEA's objection related to the netting of reserves for load and wind that AWEA has not directly rebutted in its Supplementary Comments:

AWEA's characterization of day-ahead system scheduling as "forecast" is not accurate. Day-ahead scheduling for Idaho Power typically includes actual transactions with third parties, and these transactions obligate the Company and incur costs to provide or accept energy for the next day, and are not merely forecasts. Additionally, day-ahead forecasts for load and day-ahead forecasts for wind are not the same thing as AWEA implies; forecasting wind generation a day ahead is considerably more difficult. AWEA/RNW correctly note in their Comments that wind energy forecast error is greatly reduced as forecast lead time is reduced. AWEA/RNW Comments pp. 5-6. In fact, it is precisely the magnitude and nature of the day-ahead wind forecast error that requires Idaho Power, as an entity having a mandate to reliably serve load, to set aside capacity day ahead to allow response to wind forecast errors.

By comparison, system load is less difficult to forecast a day ahead, and day-ahead load forecast errors are typically less problematic. The National Renewable Energy Laboratory ("NREL") explains in a July 2012 conference paper on a comparison between load and wind forecasting: "Load generally follows a familiar pattern, reaching its peak during the day and into the evening, with a nighttime nadir." *A Comparison of Wind Power and Load Forecasting Error Distributions*, Bri-Mathias Hodge, Anthony Florita, Kirsten Orwig, Debra Lew, Michael Milligan, National Renewable Energy Laboratory, May 2012. NREL also importantly notes that significant day-ahead load forecast errors are often auto correlated, reflecting a tendency for day-ahead load forecast errors to persist in magnitude and direction throughout the day. Because of this tendency, day-ahead load forecast errors are more readily addressed through the hour-by-hour management in real time described by AWEA/RNW in their Comments.

Thus, the challenges in forecasting wind and load for day-ahead unit commitment are considerably different, requiring the system to treat differently the possibility of errors in forecasting these two elements of the load and resource balance. Moreover, the different treatments necessary for load and wind make impractical the netting advocated by AWEA/RNW in the analysis of errors for load and wind.

Idaho Power Reply Comments, pp. 12-13.

In its Supplementary Comments, AWEA attempts to argue that costs identified by the 2013 Study are not "wind integration costs" because they "are the costs of remarketing must-take PURPA energy when the utility is surplus on energy." AWEA Supp. Comments, p. 3. AWEA further argues that, "to the extent that Idaho Power believes there are additional costs associated with must-take PURPA wind that are incremental to the integration costs identified in a proper study, those costs should be captured through the Company's avoided cost methodology." *Id.*, pp. 3-4. AWEA proceeds to argue that "'integration costs' identified by Idaho Power belong in the avoided cost methodology" and further that it "should not be applied to non-PURPA circumstances." *Id.*, pp. 4-6 (Section 2), pp. 12-14 (Section 4). This not only demonstrates a lack of understanding of Public Utility Regulatory Policies Act of 1978 ("PURPA"), but also a lack of understanding of what the Company's request is in this case.

First of all, the Commission's prior implementation of wind integration charges, as well as the Company's request in this case is limited to PURPA qualifying facility ("QF") generators. *See*, proposed Schedule 87, Applicability. Secondly, PURPA requires that the Commission establish rates for mandatory utility purchases of QF generation set at the utility's avoided cost. Avoided cost is defined as follows:

> Avoided costs means the incremental costs to an electric utility of electric energy or capacity or both which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source.

18 C.F.R. § 292.101(b)(6). The Incremental Cost Integrated Resource Plan ("IRP") Avoided Cost Methodology was adopted by the Commission to meet the above-

referenced definition of avoided cost rates. Order No. 32697, p. 21 ("we find that the modified methodology comports with the definition of avoided cost contained in FERC regulations.")

In addition to the avoided cost definition cited above, PURPA also requires that the retail customers of the purchasing utility be held harmless by the PURPA transaction. Order No. 32697, p. 16; 18 C.F.R. § 292.304(a)(1), (a)(2). Because of this requirement, a QF is responsible for paying the costs caused by its generation through the required integration of the variable and intermittent nature of the generation it provides. Similarly, a QF is required to pay for any required network upgrades required for its generation to be a designated network resource on the utility's system. If these costs were thrust upon the utility's other customers, they would be paying more than the utility's avoided cost for that QF generation, which is contrary to the requirements of PURPA. These are examples of costs that are specifically not included in the avoided cost pricing methodologies, but that nonetheless are costs imposed by the QF and its mandatory purchase transaction. The Incremental Cost IRP Methodology establishes the cost of energy and capacity in conformance with the Federal Energy Regulatory Commission's definition. The wind integration charge establishes the cost of holding additional operating reserves and changes to the operation of the utility's system to incorporate the QF's variable and intermittent generation. The combination of these costs is required to arrive at a lawful purchase price for the mandatory QF transaction. These costs must be borne by the QF, and not the utility's retail customers. As stated in its initial Application for this matter, "Failure to calculate and properly allocate wind integration costs to wind generators when calculating avoided cost rates impermissible

pushes those costs onto customers, making them no longer indifferent to whether the generation was provided by a PURPA QF or otherwise generated or acquired by the Company." Application, p. 3.

AWEA makes misleading and incorrect statements in its Supplementary Comments regarding its belief as to the "remarketing" of PURPA QF generation. The 2013 Study identifies costs associated with the modified operation of Idaho Power's system because of the must-take addition of PURPA generation, which is not scheduled, not dispatchable, and is delivered in any amount at any time and in any quantity that the QF chooses. As stated in Idaho Power's Reply Comments, PURPA QF generation is a designated network resource to serve load on Idaho Power's system. QF generation is not "remarketed" by the Company as AWEA suggests and assumes. In practice, the product marketed for surplus sales is sourced from a generator (or generators) capable of making a firm transaction and delivering an expected amount of power with a high level of dependability. During periods of energy surplus, QF generation may add to the surplus; however, for reliability and dependability reasons, as well as market conditions (no market for non-firm, as-delivered energy), generators other than PURPA QF generators must be utilized to source the additional surplus sales. While the PURPA generation is not technically sourcing surplus sales, it is still necessary to incur extra operational costs in firming the PURPA generation in order to reliably meet network load demands and surplus sale obligations. The extra operational costs to firm PURPA generation are not captured by the IRP methodology, but are addressed with the integration studies and charge.

III. CONCLUSION

Idaho Power agrees with Staff's recommendations: (1) to accept the results of the Company's 2013 Wind Integration Study; (2) to recover the full incremental cost of integration from new wind projects; and (3) to implement integration charges as a dollar per MWh charge rather than as a percentage of avoided cost rates. Additionally, the Company agrees with and accepts Staff's further recommendations to apply wind integration costs from the 2013 Study using the Company's proposed tariff, Schedule 87. Idaho Power accepts Staff's revision of the discount rate used in the levelization of the integration charges from 6.7 percent to 8.8 percent, which is consistent with the levelization of published avoided cost rates AWEA/RNW's objections to the study methodology are without merit as it pertains to the use of day-ahead forecast data and the netting of reserves for Idaho Power because of the way costs are actually incurred in the operation of Idaho Power's system on a day-ahead basis, with a very limited ability to recover them as the system balances into real time.

Idaho Power respectfully requests that the Commission approve the updated wind integration costs as set forth in the 2013 Study and the proposed Schedule 87 as modified by Staff.

DATED at Boise, Idaho, this 17th day of September 2014.

DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 17th day of September 2014 I served a true and correct copy of the SUPPLEMENTARY REPLY COMMENTS OF IDAHO POWER COMPANY upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff
Kristine A. Sasser
Deputy Attorney General
Idaho Public Utilities Commission
472 West Washington (83702)
P.O. Box 83720
Boise, Idaho 83720-0074

____Hand Delivered
____U.S. Mail
____Overnight Mail
____FAX
__X__ Email kris.sasser@puc.idaho.gov

Idaho Winds LLC
Dean J. Miller
McDEVITT & MILLER LLP
420 West Bannock Street (83702)
P.O. Box 2564
Boise, Idaho 83701

____Hand Delivered
____U.S. Mail
____Overnight Mail
____FAX
__X__ Email joe@mcdevitt-miller.com

Rick Koebbe, President
Idaho Winds LLC
5420 West Wicher Road
Glenns Ferry, Idaho 83623

____Hand Delivered
____U.S. Mail
____Overnight Mail
____FAX
__X__ Email rk@powerworks.com

Bob Eggers, Legal Counsel
Idaho Winds, LLC
15850 Jess Ranch Road
Tracy, California 95377

____Hand Delivered
____U.S. Mail
____Overnight Mail
____FAX
__X__ Email re@powerworks.com

Cold Springs Windfarm, LLC; Desert Meadow Windfarm, LLC; Hammett Hill Windfarm, LLC; Mainline Windfarm, LLC; Ryegrass Windfarm, LLC; and Two Ponds Windfarm, LLC
Peter J. Richardson
RICHARDSON ADAMS, PLLC
515 North 27th Street
Boise, Idaho 83702

____Hand Delivered
____U.S. Mail
____Overnight Mail
____FAX
__X__ Email peter@richardsonadams.com

Benjamin G. Huang, Manager
c/o Mountain Air Projects
6000 North Foxtail Way
Glenns Ferry, Idaho 83623

____Hand Delivered
____U.S. Mail
____Overnight Mail
____FAX
__X__ Email bhuang@terna-energy.com

Cassia Wind Farm LLC; Hot Springs Windfarm, LLC; Bennett Creek Windfarm, LLC; Cassia Gulch Wind Park LLC; Tuana Springs Energy, LLC; and High Mesa Energy, LLC
Gregory M. Adams
RICHARDSON ADAMS, PLLC
515 North 27th Street
Boise, Idaho 83702

____Hand Delivered
____U.S. Mail
____Overnight Mail
____FAX
__X__ Email greg@richardsonadams.com

Paul Ackerman
Assistant General Counsel
Exelon Business Services Corporation
100 Constellation Way
Baltimore, Maryland 21202

____Hand Delivered
____U.S. Mail
____Overnight Mail
____FAX
__X__ Email paul.ackerman@constellation.com

American Wind Energy Association and Renewable Northwest Project
Teresa A. Hill
K&L GATES, LLP
One S.W. Columbia Street, Suite 1900
Portland, Oregon 97258

____Hand Delivered
____U.S. Mail
____Overnight Mail
____FAX
__X__ Email teresa.hill@klgates.com

Dina M. Dubson
Renewable Northwest Project
421 SW 6th Avenue, Suite 1125
Portland, Oregon 97204

____Hand Delivered
____U.S. Mail
____Overnight Mail
____FAX
__X__ Email dina@rnp.org

Christa Bearry, Legal Assistant